

Message Text

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ORIGIN EA-10

INFO OCT-01 ISO-00 EB-07 L-02 AGR-05 CIAE-00 COME-00

INR-07 LAB-04 NSAE-00 SP-02 STR-01 TRSE-00 CIEP-01

FRB-03 OMB-01 SS-15 NSC-05 H-01 SAM-01 SAJ-01 PRS-01

NSCE-00 /068 R

DRAFTED BY EA/PRCM:PGSMITH:EBS

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COMM/BEWT/PRC - DDENNY (SUBS)

EB/ORF/OFPP - FSPILLMAN (DRAFT)

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R 032310Z MAR 75

FM SECSTATE WASHDC

TO USLO PEKING

AMCONSUL HONG KONG

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E.O. 11652: N/A

TAGS: ETRD, EAGR, CH, US

SUBJECT: CANCELLATION OF GRAIN PURCHASE CONTRACT

REF: PEKING 0253

1. PRESS FEB. 28 WIDELY CARRIED REPORTS, CONFIRMED BY AGRICULTURE DEPARTMENT, THAT PRC HAS CANCELLED ORDER FOR 382 THOUSAND TONS U.S. WHEAT SCHEDULED FOR DELIVERY IN NEXT CROP YEAR BEGINNING JULY 1. FYI: WE BELIEVE THAT THIS CANCELLATION PROBABLY COVERS ALL OR VIRTUALLY ALL OUTSTANDING WHEAT CONTRACTS. F.O.B. PRICE WOULD HAVE TOTALLED ABOUT DOLS 60 MILLION. DREYFUS, WHICH WAS INVOLVED THIS TIME, IS BELIEVED NOT TO BE TOO UNHAPPY ABOUT THE CANCELLATION, BUT HAS DECLINED TO COMMENT PUBLICLY.

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ALTHOUGH THIS IS STRICTLY OUR INTERPRETATION, DISSATIS-

FACTION OVER CONTRACT TERMS ON TCK RISK, PROSPECT OF SHIPPING DELAYS (DUE TO PRC PORT CONGESTION), AND PERHAPS NATURE OF DREYFUS' FORWARD POSITION IN WHEAT MAY HAVE MADE THE COMPANY WILLING OR EVEN EAGER TO ACCEPT CANCELLATION. WE BELIEVE THAT CHINESE REASONS FOR CANCELING DREYFUS CONTRACTS WERE SIMILAR TO THOSE IN THE CASE OF THE COOK CANCELLATION. END FYI.

2. IF ASKED BY PRESS, WE INTEND TO HAVE NO COMMENT EXCEPT TO NOTE THAT THERE PROBABLY WERE A NUMBER OF ECONOMIC FACTORS INVOLVED. IF ASKED FOR EXAMPLES OF SUCH FACTORS, WE WILL SAY THAT THEY COULD INCLUDE A GOOD WHEAT CROP IN CHINA LAST YEAR, AND PROBABLY SOME CHINESE CONCERN OVER THEIR FOREIGN EXCHANGE SITUATION. KISSINGER

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